

**OWENDALE-GAGETOWN
AREA SCHOOL DISTRICT
HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2008**

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	i - ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - viii
BASIC FINANCIAL STATEMENTS:	
Government-wide financial statements	
Statement of net assets	1 - 2
Statement of activities	3
Fund financial statements	
Balance sheet – Governmental funds	4 - 5
Statement of revenue, expenditures and change in fund balance – Governmental funds	6
Reconciliation of the statement of revenue, expenditures and change in fund balance of governmental funds to the statement of activities	7
Fiduciary funds	
Statement of fiduciary net assets	8
Notes to the financial statements	9 - 20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule – General fund	21
ADDITIONAL INFORMATION:	
Non-major governmental fund types: Combining balance sheet	22
Combining statement of revenue, expenditures and change in fund balances	23

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
General fund:	
Schedules of general fund revenues	24
Schedules of general fund expenditures	25 -29
Fiduciary funds:	
Statement of receipts, disbursements and fund balance- agency fund - student activities	30
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	31 – 32
Schedule of Findings	33 - 35



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CPA's On Your Team

REPORT OF INDEPENDENT AUDITORS

To The Board of Education
Owendale-Gagetown Area School District
Owendale and Gagetown, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Owendale-Gagetown Area School District as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2008 on our consideration of Owendale-Gagetown Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

(Continued)

- i -

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

REPORT OF INDEPENDENT AUDITORS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Owendale-Gagetown Area School District's basic financial statements. The additional information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.

Sebewaing, Michigan

September 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Owendale-Gagetown Area School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the district's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The General Fund suffered a larger loss for the year ended June 30, 2008 than expected. Expenditures exceeded revenue by \$76,993. The General Fund balance has been decreased to a deficit balance of \$18,822.

The Athletic Fund showed greater revenues over expenditures. Revenues exceeded expenditures by \$446. The Athletic Fund balance has increased to \$3,446.

The Food Services fund showed greater revenues over expenditures. Revenues exceeded expenditures by \$17,491. This increased the fund balance to \$18,930.

In total, District revenues exceeded \$2.0 and \$1.9 million dollars for the fiscal years ended June 30, 2008 and 2007, respectively. Spending over the same time period was \$2.1 and \$2.2 million dollars for the fiscal years ended June 30, 2008 and 2007, respectively.

The District borrowed \$350,000 in state aid anticipation notes to help fund current operations.

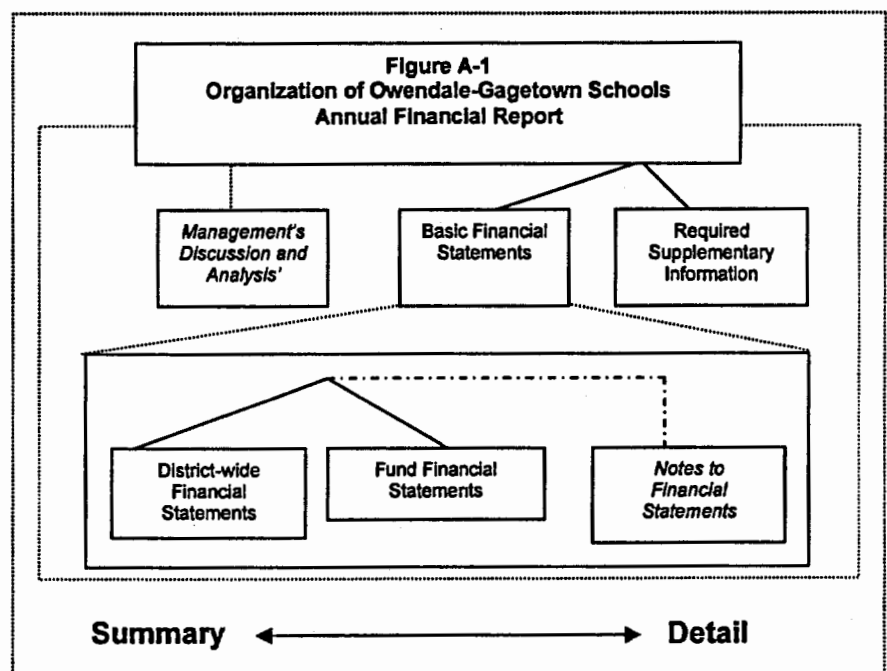
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short term* as well as what remains for future spending.



Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Owendale-Gagetown Area Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

Government funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets decreased \$7,507 from \$474,261 to \$466,754 as of June 30, 2008.

Table A-3
Owendale-Gagetown Area School District

The following summarizes the net assets of the Governmental activities:

	<u>2008</u>	<u>June 30,</u> <u>2007</u>
Assets		
Current and other assets	\$ 543,342	\$ 478,364
Capital assets, less accumulated depreciation	<u>549,060</u>	<u>538,010</u>
Total assets	<u>\$1,092,402</u>	<u>\$1,016,374</u>
Liabilities		
Current liabilities	\$ 567,269	\$ 459,280
Noncurrent liabilities	<u>58,380</u>	<u>82,833</u>
Total liabilities	<u>\$ 625,648</u>	<u>\$ 542,113</u>
Net assets:		
Invested in capital assets net of related debt	\$ 496,314	\$ 460,319
Restricted		
Unrestricted	<u>(29,560)</u>	<u>13,942</u>
Total net assets	<u>\$ 466,754</u>	<u>\$ 474,261</u>

Table A-4
Change In Owendale-Gagetown Area School's Net Assets

The following summarizes the statement of activities:

	<u>2008</u>	<u>June 30,</u> <u>2007</u>
Revenues		
Program revenues		
Charges for services	\$ 59,919	\$ 64,878
Federal and state categorical grants	185,773	191,609
Capital grant	45,867	
General revenues		
Property taxes	136,611	132,372
State aid – unrestricted	1,560,962	1,460,012
Interest and investment earnings	4,700	11,720
Other	<u>100,572</u>	<u>54,997</u>
Total revenues	<u>2,094,404</u>	<u>1,915,588</u>
Expenses		
Instruction	1,285,739	1,277,801
Support services	606,328	656,280
Food services	91,082	102,768
Athletics	96,396	87,207
Interest on long-term debt	16,138	22,210
Unallocated depreciation	<u>6,229</u>	<u>6,346</u>
Total expenses	<u>2,101,913</u>	<u>2,152,612</u>
Change in net assets	<u>\$ (7,507)</u>	<u>\$ (237,024)</u>

(Continued)

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$3,555. This is a decrease of \$59,055 over the year before. The District has taken a proactive approach to its declining enrollment and stagnant state funding. During the fiscal year 2008, the District did the following:

- Upgraded computer equipment.
- Reduced staff through attrition, split staff duties.
- Attracted students through school of choice.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund

The general fund suffered another substantial loss this fiscal year ended June 30, 2008. The amended budget calculated a remaining fund balance of \$1,405. However, actual revenue was \$9,700 under budget and actual expenditures were \$10,527 leaving a deficit fund balance of \$(18,822).

Athletic Fund

Revenue is up \$2,071 from 2007.

Expenditures are up \$8,123 from 2007. The General Fund transferred \$64,912 to the Athletic Fund to cover salaries, benefit costs, supplies and equipment.

Food Service Fund

Local revenue decreased \$7,084; Federal reimbursements increased \$6,195 while state reimbursements increased \$3,231. The overall change in revenue was an increase of \$2,342 over 2007.

On the expenditure side, salary and benefit costs as well as food cost decreased. Overall expenditures decreased \$18,642 from 2007.

The Food Service Fund ended the year with an increase in fund balance of \$17,491.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital asset purchases by the District in 2008 consisted of laptop computers and software for \$47,019 (funded by grants and local donations), and various other equipment for \$2,613. Capital spending totaled \$50,386 in fiscal year 2008.

Table A-5
Owendale-Gagetown Area School District's Capital Assets

	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 158,989	\$ 158,989
Buildings and improvements	1,120,026	1,120,026
Vehicles and buses	268,263	268,263
Furniture and equipment	<u>553,947</u>	<u>503,561</u>
Totals	<u>\$2,101,225</u>	<u>\$2,050,839</u>

Long-term Debt

At year end, the District have bus and dishwasher notes payable in equal annual installments. The balance at June 30, 2008 was \$52,746.

(Continued)

FACTORS BEARING ON THE DISTRICT'S FUTURE

The school district suffered a significant loss in 2008. The district is continuing to take drastic measures to ensure the existence of the school district as follows:

- The District is expected to receive an increase of \$107 per pupil in Foundation Allowance for 2008-2009.
- The blended pupil count from last year (215) to this year (222) increased by 7 pupils. This will be an approximate increase in state aid foundation of \$52,600.
- Jr. High sports, cheerleading and golf have been realigned and will reduce the cost of coaches and bus expenses saving approximately \$10,000.
- The state has reduced the MPSERS retirement rate for 2008-2009 from 16.72% to 16.54%. This should save the District approximately \$2,000.
- There is a spending freeze for all nonessential purchases.
- There has been a freeze in pay for support staff.
- There continues to be one administrator covering elementary principal, secondary principal, and superintendent duties.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Owendale-Gagetown Area School District, 7166 Main Street, Owendale, MI 48754.

BASIC FINANCIAL STATEMENTS

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

		GOVERNMENTAL ACTIVITIES
ASSETS		
CURRENT ASSETS:		
Cash and deposits		\$ 179,111
Taxes receivable		311
Accounts receivable		74,667
Inventory		703
Due from other governmental units		285,172
Prepaid expenses		<u>3,377</u>
TOTAL CURRENT ASSETS		<u>543,342</u>
NON-CURRENT ASSETS:		
Depreciated capital assets		2,101,225
Less: Accumulated depreciation		<u>(1,552,165)</u>
TOTAL NON-CURRENT ASSETS		549,060
TOTAL ASSETS		<u>\$ 1,092,402</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	GOVERNMENTAL ACTIVITIES
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 23,654
Accrued salaries and wages	105,578
Accrued teacher benefits	43,857
Accrued interest payable	14,261
Deferred revenue	4,565
State aid note payable	350,000
Current portion of long-term obligations	25,354
TOTAL CURRENT LIABILITIES	567,269
NON-CURRENT LIABILITIES:	
Bus and other notes payable	52,746
Compensated absences	30,988
Less: Current portion of long-term obligations	(25,354)
TOTAL NON-CURRENT LIABILITIES	58,380
TOTAL LIABILITIES	625,648
NET ASSETS:	
Invested in capital assets, net of related debt	496,314
Unrestricted	(29,560)
TOTAL NET ASSETS	466,754
TOTAL LIABILITIES AND NET ASSETS	\$ 1,092,402

OWENDALE-GAGETOWN AREA SCHOOLS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	Program Revenues		TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,285,739	\$ 1,428	\$ 108,413	\$ (1,130,032)
Support services	606,328		532	(605,797)
Food service	91,082	31,793	76,829	17,539
Athletics	96,396	26,700		(69,696)
Interest on long-term obligations	16,138			(16,138)
Depreciation - Unallocated	6,229			(6,229)
Total governmental activities:	<u>\$ 2,101,913</u>	<u>\$ 59,919</u>	<u>\$ 185,773</u>	<u>(1,810,352)</u>
General revenues:				
Property taxes, levied for general purposes				136,611
State aid				1,560,962
Investment earnings				4,700
Special education - local				80,803
Miscellaneous				19,769
Total General Revenues				<u>1,802,845</u>
CHANGE IN NET ASSETS				<u>(7,507)</u>
NET ASSETS - beginning of year				<u>474,261</u>
NET ASSETS - end of year				<u>\$ 466,754</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS			
Cash - Checking	\$ 14,128	\$ 12,557	\$ 26,685
Cash - Savings	152,425		152,425
Accounts receivable	74,507	160	74,667
Inventory		703	703
Due from other funds	4,378	13,190	17,568
Due from other governmental units	285,172		285,172
Prepaid expenses	3,233	145	3,377
TOTAL ASSETS	<u>\$ 533,844</u>	<u>\$ 26,754</u>	<u>\$ 560,598</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	\$ 23,654		\$ 23,654
State aid note payable	350,000		350,000
Due to other funds	13,190	\$ 4,378	17,568
Accrued salaries and wages	105,578		105,578
Accrued teacher benefits	43,857		43,857
Accrued interest payable	11,821		11,821
Deferred revenue	4,565		4,565
TOTAL LIABILITIES	<u>552,666</u>	<u>4,378</u>	<u>557,044</u>
FUND BALANCE:			
Unreserved	<u>(18,822)</u>	<u>22,376</u>	<u>3,555</u>
TOTAL FUND BALANCE (DEFICIT)	<u>(18,822)</u>	<u>22,376</u>	<u>3,555</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 533,844</u>	<u>\$ 26,754</u>	<u>\$ 560,598</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2008**

TOTAL GOVERNMENTAL FUND BALANCES **\$ 3,555**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	2,101,225	
Accumulated depreciation is	<u>(1,552,165)</u>	549,060

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported in the funds.

311

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bus and van notes payable	52,746	
Compensated absences	30,988	
Accrued interest payable on long-term obligations	<u>2,439</u>	(86,173)

NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 466,754**

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:			
Local sources:			
Taxes	\$ 136,641		\$ 136,641
Food service		\$ 31,804	31,804
Athletics		26,699	26,699
Special education billback	80,803		80,803
Reimbursements and refunds	13,627		13,627
Other local revenue	23,463		23,463
State sources:			
State school aid-Restricted	113,886		113,886
Other state sources	1,447,076	11,056	1,458,132
Federal sources	143,608	65,773	209,381
TOTAL REVENUE	<u>1,959,105</u>	<u>135,331</u>	<u>2,094,436</u>
EXPENDITURES:			
Current:			
Education:			
Instruction	1,336,143		1,336,143
Supporting services	593,869		593,869
Food service		91,141	91,141
Athletics		91,165	91,165
Debt service:			
Principal repayment	23,211		23,211
Interest and fiscal charges	17,962		17,962
TOTAL EXPENDITURES	<u>1,971,185</u>	<u>182,306</u>	<u>2,153,491</u>
EXCESS OF REVENUE (UNDER)			
EXPENDITURES	<u>(12,080)</u>	<u>(46,975)</u>	<u>(59,055)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers	(64,912)	64,912	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(64,912)</u>	<u>64,912</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES (UNDER) OVER EXPENDITURES AND OTHER USES	<u>(76,993)</u>	<u>17,937</u>	<u>(59,055)</u>
FUND BALANCE - JULY 1	58,171	4,439	62,610
FUND BALANCE (DEFICIT) - JUNE 30	<u>\$ (18,822)</u>	<u>\$ 22,376</u>	<u>\$ 3,555</u>

OWENDALE-GAGETOWN AREA SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (59,055)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation Expense	(39,336)	
Capital Outlays	<u>50,386</u>	11,050

Property taxes receivable will not be collected for several months after the end of the District's fiscal year, therefore, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

Taxes receivable - beginning of year	(342)	
Taxes receivable - end of year	<u>311</u>	(31)

Bus and van note repayments affect long term liabilities in the statement of net assets and does not affect the statement of activities.

Repayment of bus note principal	23,211	
Repayment of van note principal	<u>1,734</u>	24,945

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable - beginning of year	3,574	
Accrued interest payable - end of year	<u>(2,439)</u>	1,135

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences - beginning of year	45,436	
Accrued compensated absences - end of year	<u>(30,988)</u>	14,448

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (7,507)

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008**

	AGENCY FUNDS
ASSETS	
Cash and equivalents	\$ 31,342
TOTAL ASSETS	<u>\$ 31,342</u>
LIABILITIES:	
Due to student groups	\$ 31,342
TOTAL LIABILITIES	<u>\$ 31,342</u>

The accompanying notes are an integral
part of the financial statements.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Owendale-Gagetown Area School District is a consolidated school system located in Huron County, Michigan. The School has approximately 215 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the Owendale-Gagetown Area School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The Reporting Entity:

The Owendale-Gagetown Area School District ("District") is governed by the Owendale-Gagetown Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-major Funds:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service and athletic activities in the special revenue funds.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual method of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

(Continued)

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies:

Cash and Equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 15 and February 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	18.00

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory

Inventory in the Special Revenue Fund consists of food and donated commodities (received as federal financial assistance from the U.S. Department of Agriculture (USDA), which were on hand at year-end. The commodities are valued at USDA suggested values. Inventories for commodities are recorded as revenue when received and expenditures when utilized.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20	years
Buildings and Improvements	20 – 50	years
Furniture and Equipment	5 – 20	years
Vehicles and Buses	8	years

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Capital Assets (Continued)

The District's capitalization policy is to capitalize assets with an initial individual cost of \$500 or more. Group purchases are evaluated on a case-by-case basis.

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with State law, prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)

2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted through passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General, Food Service and Athletic Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Appropriations lapse at the end of each fiscal year.
6. The Board of Education may authorize supplemental appropriations during the year. The Board of Education authorized budget amendments during the fiscal year at their regular scheduled board meetings.

NOTE 3 – DEPOSITS AND INVESTMENTS:

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District does not have a deposit or investment policy.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

Statement of Net Assets

Government-wide Financial Statement Captions:

Cash - checking	\$ 26,686
Cash - savings	152,425

Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>31,342</u>
Total	<u>\$210,452</u>

Notes to Financial Statements:

Deposits	\$210,167
Cash on hand	<u>285</u>
Total	<u>\$210,452</u>

The carrying amount of cash and deposits with financial institutions of the District amounted to \$210,452 at June 30, 2008. The total bank balance as of the same date was \$219,363. Deposits with financial institutions are categorized as follows:

Amount insured by the FDIC	\$100,000
Uncollateralized/Uninsured	<u>119,363</u>
Total deposits with financial institutions	<u>\$ 219,363</u>

All deposits categorized as uncollateralized are the property of the District.

The amount of uncollateralized deposits throughout the fiscal year did not significantly exceed the amount of uncollateralized deposits at June 30, 2008.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 4,378	\$13,190
Special Revenue Fund:		
Athletic Fund		1,079
Food Service	<u>13,190</u>	<u>3,299</u>
TOTAL	<u>\$17,568</u>	<u>\$17,568</u>

For the fiscal year ended June 30, 2008, the Food Service fund owed the General Fund for salaries and benefit payments and the General Fund owed the Food Service Fund for state categorical 31d and 31f money. The Athletic Fund owed the General Fund for salaries and benefits payments.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2008 consist of the following:

Accounts receivable	
Grants receivable	\$68,215
Receivable – Local ISD's	6,292
Athletic Fund	<u>160</u>
	<u>\$74,667</u>

No allowance for doubtful accounts is considered necessary.

NOTE 6 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JUNE 30, 2007</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2008</u>
Capital assets				
Land improvements	\$ 158,989			\$ 158,989
Buildings and improvements	1,120,026			1,120,026
Vehicles and buses	268,263			268,263
Furniture and equipment	<u>503,561</u>	<u>\$50,386</u>		<u>553,947</u>
Subtotal	<u>2,050,839</u>	<u>\$50,386</u>		<u>2,101,225</u>
Accumulated depreciation:				
Land improvements	80,500	5,456		85,956
Buildings and improvements	886,721	549		887,270
Vehicles and buses	127,400	18,096		145,496
Furniture and equipment	<u>418,208</u>	<u>15,235</u>		<u>433,443</u>
	<u>1,512,829</u>	<u>39,336</u>		<u>1,552,165</u>
Net capital assets	<u>\$ 538,010</u>	<u>\$11,050</u>		<u>\$ 549,060</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$ 4,860
Support Services	22,571
Food Service	445
Athletics	5,231
Unallocated depreciation	<u>6,229</u>
Total depreciation	<u>\$39,336</u>

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 - EXPENDITURES IN EXCESS OF APPROPRIATIONS:

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2008, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General fund			
Preschool	\$ 58,883	\$ 55,885	\$ 2
Elementary	347,454	349,836	2,382
At risk	48,059	49,797	1,738
School Administration	93,983	94,382	399
Debt service	28,270	41,173	12,903
Transfers to other funds	56,303	64,912	8,609
Athletic fund	90,214	91,165	951

NOTE 8 - NOTE PAYABLE:

At June 30, 2008, the District has a \$350,000 revenue note (state-aid note) outstanding. The note, which has an interest rate of 3.68%, matures August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

<u>BALANCE</u> <u>JUNE 30, 2007</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2008</u>
\$250,000	\$350,000	\$250,000	\$350,000

NOTE 9 - LONG-TERM DEBT:

Long-term obligations currently outstanding are as follows:

Bus contract payable at June 30, 2008 is comprised of the following item: \$122,008 June 2, 2006, bus contract due in equal annual principal and interest installments of \$26,785 through June 2, 2010. Interest rate 4.89%.

\$49,883

Capital lease payable to Gordon Food Service for a Dishwashing Machine, due in monthly installments of \$84 (includes principal and interest). The lease matures on January 14, 2009. The lease was paid off in July, 2008.

2,863

Obligation under contract for compensated absences

30,988

Total general long-term debt

\$83,734

(Continued)

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 9 - LONG-TERM DEBT: (CONTINUED)

The following is a summary of the debt transactions of the School District for the year ended June 30, 2008:

	BALANCE JUNE 30, 2007	ADDITIONS	PAYMENTS	BALANCE JUNE 30, 2008	DUE WITHIN ONE YEAR
Compensated absences	\$ 45,436		\$14,448	\$30,988	
Bus contract	73,094		23,211	49,883	\$24,346
Van payable	4,597		4,597		
Dishwasher lease		\$3,367	504	2,863	1,008
	<u>\$123,127</u>	<u>\$3,367</u>	<u>\$42,760</u>	<u>\$83,734</u>	<u>\$25,354</u>

The annual requirements to amortize all applicable debt outstanding as of June 30, 2008, including interest payments of \$3,687 are as follows:

Years ending June 30,	Total
2009	\$27,793
2010	27,793
2011	847
	<u>56,433</u>
Obligation under contract for compensated absences	30,988
Total general long-term debt and interest	<u>\$87,421</u>

NOTE 10 - INTERFUND TRANSFERS:

During the year ended June 30, 2008, the general fund transferred \$64,912 to the athletic fund to cover wages, employee benefits and other athletic costs.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description - The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN: (CONTINUED)

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the year ended June 30, 2008, the rate was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustee. The District contributions to MPSERS for the years ended June 30, 2008, 2007, and 2006 were approximately \$172,515, \$180,670 and \$169,752, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 12 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each risk pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 12 - RISK MANAGEMENT: (CONTINUED)

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 13 – OPERATING LEASES:

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the school district's long-term debt account group.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2008.

Years ending June 30,	<u>Amounts</u>
2009	\$ 4,500
2010	4,500
2011	4,500
2012	4,500
2013	750
Total minimum payments required	<u>\$18,750</u>

NOTE 14 - SUBSEQUENT EVENTS:

During the year ended June 30, 2008, the District had a state aid note payable outstanding for \$350,000 with the Michigan Municipal Bond Authority, with a final maturity of August 20, 2008. The note payable is to be paid with the proceeds of the state aid payment to be received in August 2008. If the state aid payment by the District is less than the principal and interest due on the note on August 20, 2008, the note must be paid with other sources.

Subsequent to year-end, the District entered into an agreement to borrow \$425,000 using a state aid note bearing interest at 1.70% and maturing August 20, 2009. The note is secured by the full faith and credit of the District as well as pledged state aid.

REQUIRED SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			VARIANCE WITH FINAL BUDGET OVER <u>(UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUE:				
Local sources:				
Taxes	\$ 121,895	\$ 137,126	\$ 136,641	\$ (485)
Special education billback	55,000	78,000	80,803	2,803
Reimbursements and refunds	13,000	15,855	13,627	(2,228)
Other local revenue	23,850	25,075	23,463	(1,612)
State sources:				
State school aid-Restricted	39,600	115,681	113,886	(1,795)
Other state aid revenue	1,469,973	1,447,076	1,447,076	
Federal sources	90,025	149,992	143,608	(6,384)
TOTAL REVENUE	<u>1,813,343</u>	<u>1,968,805</u>	<u>1,959,105</u>	<u>(9,700)</u>
EXPENDITURES:				
Current:				
Education:				
Instruction	1,235,148	1,336,370	1,336,143	227
Supporting services	497,024	604,628	593,869	10,759
Debt service:				
Principal repayment	26,750	23,211	23,211	
Interest and fiscal charges		5,059	17,962	(12,903)
TOTAL EXPENDITURES	<u>1,758,922</u>	<u>1,969,268</u>	<u>1,971,186</u>	<u>(1,918)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>54,421</u>	<u>(463)</u>	<u>(12,080)</u>	<u>(11,617)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in from other funds	3,023	-	-	-
Operating transfers to other funds	(47,092)	(56,303)	(64,912)	(8,609)
TOTAL OTHER FINANCING (USES)	<u>(44,069)</u>	<u>(56,303)</u>	<u>(64,912)</u>	<u>(8,609)</u>
EXCESS OF REVENUE (UNDER) OVER EXPENDITURES AND OTHER USES	<u>10,352</u>	<u>(56,766)</u>	<u>(76,993)</u>	<u>(20,227)</u>
FUND BALANCE - JULY 1	<u>58,171</u>	<u>58,171</u>	<u>58,171</u>	
FUND BALANCE (DEFICIT) - JUNE 30	<u>\$ 68,523</u>	<u>\$ 1,405</u>	<u>\$ (18,822)</u>	<u>\$ (20,227)</u>

ADDITIONAL INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 8,337	\$ 4,221	\$ 12,557
Accounts receivable		160	160
Due from other funds	13,190		13,190
Prepaid expense		145	145
Inventory	703	-	703
TOTAL ASSETS	<u>\$ 22,229</u>	<u>\$ 4,525</u>	<u>\$ 26,754</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Due to other funds	\$ 3,299	\$ 1,079	\$ 4,378
TOTAL LIABILITIES	3,299	1,079	4,378
 FUND BALANCE	 18,930	 3,446	 22,376
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 22,229</u>	 <u>\$ 4,525</u>	 <u>\$ 26,754</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUE:			
Local sources:			
Sale of meals	\$ 29,885		\$ 29,885
Miscellaneous	1,908	\$ 15,029	16,936
Admissions and entry fees		11,670	11,670
Earnings on investments	<u>12</u>	<u>-</u>	<u>12</u>
Total local sources	31,804	26,699	58,503
State sources	11,056		11,056
Federal sources:			
Reimbursements	61,951		61,951
Commodities	<u>3,822</u>		<u>3,822</u>
TOTAL REVENUE	<u>108,633</u>	<u>26,699</u>	<u>135,331</u>
EXPENDITURES:			
Food	51,959		51,959
Salaries and wages	26,037	39,529	65,566
Employee benefits	6,678	10,494	17,173
Officials		10,127	10,127
Dues & fees	1,323	1,100	2,423
Local travel		166	166
Supplies	2,907	18,289	21,196
Repairs	1,447	806	2,253
Transportation	29	2,807	2,836
Miscellaneous	-	2,381	2,381
Capital outlay	<u>761</u>	<u>5,466</u>	<u>6,226</u>
TOTAL EXPENDITURES	<u>91,141</u>	<u>91,165</u>	<u>182,306</u>
EXCESS OF REVENUE (UNDER)			
OVER EXPENDITURES	<u>17,491</u>	<u>(64,466)</u>	<u>(46,975)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer from other funds		<u>64,912</u>	<u>64,912</u>
TOTAL OTHER FINANCING SOURCES		<u>64,912</u>	<u>64,912</u>
EXCESS OF REVENUE AND OTHER SOURCES			
OVER EXPENDITURES	<u>17,491</u>	<u>446</u>	<u>17,937</u>
FUND BALANCE - JULY 1	1,439	3,000	4,439
FUND BALANCE - JUNE 30	<u>\$ 18,930</u>	<u>\$ 3,446</u>	<u>\$ 22,376</u>

OWENDALE-GAGETOWN AREA SCHOOLS

SCHEDULES OF GENERAL FUND REVENUE

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
REVENUE FROM LOCAL SOURCES:		
Property tax:		
Current tax levy	\$ 132,910	\$ 118,784
Delinquent taxes	3,732	1,051
Tuition	1,428	1,370
Earnings on investments	4,688	11,712
Rentals	600	860
Local donations	2,557	8,233
Special education billback	80,803	20,781
Reimbursements and refunds	13,627	17,310
Medicaid service coordination	11,204	9,853
Miscellaneous	2,986	4,785
TOTAL REVENUE FROM LOCAL SOURCES	<u>254,535</u>	<u>194,740</u>
REVENUE FROM STATE SOURCES:		
State aid -Restricted	113,886	136,521
Other state aid revenue	1,447,076	1,323,490
TOTAL REVENUE FROM STATE SOURCES	<u>1,560,962</u>	<u>1,460,012</u>
REVENUE FROM FEDERAL SOURCES:		
Federal aid, restricted-		
Received through the State:		
Title I grant	59,818	62,361
Title V grant	-	664
Title II, Part A -Improving Teacher Quality	13,110	25,004
Title II, Part D -Tech. Literacy Challenge	532	656
IDEA Part B	-	928
Received through ISD:		
RAISE, IDEA, & MiBLsi grants	16,504	8,215
Safe and Drug Free School	673	
Rural education achievement grant	7,104	5,124
USDA Distance Learning	45,867	5,801
USDA Preschool Grant	-	5,600
TOTAL REVENUE FROM FEDERAL SOURCES	<u>143,608</u>	<u>114,353</u>
OTHER FINANCING SOURCES:		
Sale of assets	-	3,028
Transfer from other funds	-	2,228
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>5,256</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 1,959,105</u>	<u>\$ 1,774,362</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
INSTRUCTION:		
Basic programs:		
Preschool:		
Purchased services	\$ 44,970	\$ 33,890
Teaching supplies	12,633	5,554
Conference and mileage	1,282	
Capital outlay	-	16,272
Total preschool	<u>58,885</u>	<u>55,715</u>
Elementary:		
Teacher salaries	212,985	212,920
Substitute teacher salaries	4,073	6,622
Employee benefits	121,546	116,668
Audio-visual repairs	-	205
Textbooks	8,515	1,051
Teaching supplies and materials	2,670	5,710
Miscellaneous supplies	47	655
Total elementary	<u>349,836</u>	<u>343,830</u>
High school:		
Teacher salaries	364,938	362,613
Substitute teacher salaries	23,186	23,208
Other nonathletic salaries	11,892	12,040
Employee benefits	217,062	216,456
Board paid TSA	6,639	6,639
Local travel	30	130
Dual enrollment	10,578	6,038
Audio-visual repairs	-	30
Teaching supplies and materials	11,256	4,125
Capital outlay	2,613	4,116
Textbooks	5,704	7,562
Band supplies	2,118	4,496
Miscellaneous supplies	1,660	1,953
Total high school	<u>657,676</u>	<u>649,407</u>
Added needs:		
Special education:		
Teacher salaries	83,652	37,390
Substitute teacher salaries	2,296	17,375
Employee benefits	55,526	27,241
Workshops and conferences		392
Teaching supplies and materials	1,208	5,450
Medicaid coordination	-	380
Total special education	<u>142,682</u>	<u>88,227</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	JUNE 30,	
	<u>2008</u>	<u>2007</u>
INSTRUCTION: (CONTINUED)		
Added needs: (Continued)		
Compensatory education:		
Teacher salaries	12,000	15,375
Director salary	2,600	
Teacher aide salaries	31,818	34,603
Employee benefits	10,757	11,040
Local travel and conferences	1,132	1,257
Supplies and materials	2,042	1,041
Title V expenditures	-	365
Total compensatory education	<u>60,350</u>	<u>63,681</u>
At risk education:		
Counselor and nurse salaries	17,141	11,260
Teacher aide salaries	20,908	25,138
Employee benefits	10,839	9,246
Teaching supplies	59	973
Miscellaneous expense	850	790
Total at risk education	<u>49,797</u>	<u>47,407</u>
Improvement of Instruction:		
REAP technical training	-	3,019
Workshops and conferences	16,917	29,350
Total improvement of instruction	<u>16,917</u>	<u>32,369</u>
TOTAL INSTRUCTION	<u>1,336,143</u>	<u>1,280,637</u>
SUPPORTING SERVICES:		
Pupil services:		
Guidance services:		
Guidance counselor salaries	4,794	18,940
Employee benefits	1,172	5,005
Office supplies	102	2
Total guidance services	<u>6,069</u>	<u>23,948</u>
General administration:		
Board of education:		
Board salaries	-	2,283
Legal fees	3,088	3,628
Auditing and accounting services	8,245	10,500
Workshops and conferences	150	661
Election expense	1,216	910
Dues and fees	888	812
Total board of education	<u>13,587</u>	<u>18,793</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
SUPPORTING SERVICES: (CONTINUED)		
Executive administration:		
Superintendent salary	40,000	41,000
Secretarial salaries	15,948	16,432
Employee benefits	39,030	37,375
Consulting services	-	500
Other technical services	3,330	6,820
Local travel	894	1,125
Telephone	2,104	2,103
Office supplies	1,959	2,782
Miscellaneous supplies	669	46
Dues and fees	1,438	
Capital outlay	1,089	1,660
Total executive administration	<u>106,460</u>	<u>109,843</u>
School administration:		
Principal salaries	41,522	42,272
Secretarial salaries	20,470	37,297
Employee benefits	24,003	27,349
Other technical services	200	300
Local travel	16	13
Telephone	3,407	3,614
Software license	100	1,593
Office supplies	3,576	4,431
Dues and fees	-	100
Capital outlay	1,089	
Total school administration	<u>94,382</u>	<u>116,969</u>
Business administration:		
Fiscal services:		
Accounting salaries	15,948	16,456
Employee benefits	4,617	3,712
Office supplies	245	-
Total fiscal services	<u>20,811</u>	<u>20,168</u>
Technology:		
USDA grant technology	43,317	8,136
Technical equipment repair	4,900	11,058
Capital outlay	-	935
Total technology	<u>48,217</u>	<u>20,130</u>
Other business services:		
Insurance-Errors and omissions	2,752	7,905
Insurance-Bond and other	185	161
Other miscellaneous expenses	2,073	100
Total other business services	<u>5,010</u>	<u>8,166</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
SUPPORTING SERVICES: (CONTINUED)		
Operation and maintenance of plant:		
Custodian salaries	44,577	55,329
Employee benefits	24,759	45,680
Workshops	350	75
Telephone	224	675
Heating fuel	32,415	31,381
Electricity	36,992	40,317
Water and sewage	5,714	7,602
Waste and trash disposal	2,848	2,502
Internet	6,000	7,200
Insurance-Property	11,130	10,736
Repairs-Land and buildings	3,040	2,471
Repairs-Equipment	11,021	10,230
Equipment lease	4,200	-
Grounds-Mower	672	1,002
Miscellaneous expenses	758	956
Custodial supplies	7,778	6,242
Capital outlay	6,539	2,971
Total operation and maintenance of plant	<u>199,018</u>	<u>225,368</u>
Pupil transportation:		
Transportation supervisor salary	3,143	6,919
Bus driver salaries	26,469	23,379
Special run salaries	692	953
Substitute driver salaries	5,883	2,688
Secretarial salaries	1,126	5,247
Contracted services	11,973	10,756
Employee benefits	8,901	10,371
Workshops	-	207
Bus driver physicals	94	215
Local travel	254	362
Telephone	479	259
Insurance	2,735	2,856
Repairs and maintenance	9,098	11,842
Gasoline, oil & grease	22,333	15,730
Tires	-	476
Vehicle repair parts	-	107
Other supplies	44	88
Miscellaneous expenses	511	613
Capital outlay	3,908	9,600
Total pupil transportation	<u>97,643</u>	<u>102,667</u>
Staff and personnel services:		
IDEA part B CIMS	-	802
Miscellaneous staff services	2,672	217
Total staff and personnel services	<u>2,672</u>	<u>1,019</u>
TOTAL SUPPORTING SERVICES	<u>593,869</u>	<u>647,070</u>

(Continued)

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
DEBT SERVICE:		
Principal retirement:		
Bus contracts	23,211	48,914
Total principal retirement	<u>23,211</u>	<u>48,914</u>
Interest and fiscal charges:		
Bus contracts and state aid note	16,478	13,545
Taxes abated and written off	1,484	1,084
Total interest and fiscal charges	<u>17,962</u>	<u>14,629</u>
TOTAL DEBT SERVICE	<u>41,173</u>	<u>63,543</u>
TOTAL EXPENDITURES	<u>1,971,186</u>	<u>1,991,250</u>
OTHER FINANCING USES:		
Operating transfers to other funds	64,912	53,242
TOTAL OTHER FINANCING USES	<u>64,912</u>	<u>53,242</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,036,098</u>	<u>\$ 2,044,492</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STUDENT ACTIVITY FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FUND BALANCE</u> <u>JULY 1, 2007</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>FUND BALANCE</u> <u>JUNE 30, 2008</u>
HIGH SCHOOL:				
Class of 2007	\$ 6			\$ 6
Class of 2008	5,867	\$ 513	\$ 4,563	1,817
Class of 2009	3,490	12,608	8,134	7,964
Class of 2010	1,184	1,316	38	2,462
Class of 2011	405	416	137	684
Graduated class	2,719	20		2,739
ACP	1,427			1,427
Athletic donations	93			93
Band	1,695	14,189	12,284	3,600
Cheerleading	143			143
Drama	597			597
Miscellaneous	477	2,552	3,634	(605)
National Honor Society	106	786	829	63
Resource room store	139		18	121
Spanish club	327			327
Student council	180	984	976	188
Yearbook	3,843	9,030	10,832	2,041
TOTAL HIGH SCHOOL	<u>22,699</u>	<u>42,414</u>	<u>41,445</u>	<u>23,668</u>
MIDDLE SCHOOL:				
Class of 2012	370	189		559
Class of 2013	389	157		546
Class of 2014	<u>552</u>	<u>89</u>	<u>-</u>	<u>641</u>
TOTAL MIDDLE SCHOOL	<u>1,311</u>	<u>435</u>	<u>-</u>	<u>1,746</u>
ELEMENTARY SCHOOL:				
Activity fund	4,692	11,302	10,066	5,928
TOTALS	<u>\$28,702</u>	<u>\$ 54,151</u>	<u>\$ 51,511</u>	<u>\$31,342</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Owendale-Gagetown Area School District
Owendale and Gagetown, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District, Owendale, Michigan as of and for the year ended June 30, 2008, which collectively comprise Owendale-Gagetown Area School District's basic financial statements, and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owendale-Gagetown Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Owendale-Gagetown Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owendale-Gagetown Area School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Owendale-Gagetown Area School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Owendale-Gagetown Area School District's financial statements that is more than inconsequential will not be prevented or detected by Owendale-Gagetown Area School District's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (2007-1, 2007-2, 2008-1, 2008-2, 2008-3)

(Continued)

-31-

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Owendale-Gagetown Area School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-2, 2008-2 and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owendale-Gagetown Area School District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Owendale-Gagetown Area School District in a separate letter dated September 8, 2008.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

September 8, 2008

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS-FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

2007-1 Segregation of Duties

Condition: Due to the limited number of people working in the office, many crucial duties are combined and given to the available employees. Presently, a single individual prepares checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger.

Criteria: To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible.

Effect: Segregation of the cash disbursement process is necessary to ensure that the School's funds are not being misappropriated and that only authorized disbursements are being made.

Recommendation: We recommend the District segregate bank account reconciliation duties from cash receipts and/or cash disbursements duties. While we understand that a complete segregation of duties is impractical for a small school with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls.

Response: We are aware of this deficiency and to the extent possible we will attempt to segregate the bank reconciliation duties.

2008-1 Balanced Budget

Condition: During our audit, we found a few instances where the School was not in compliance with P.A. 2 regarding budget procedures.

Criteria: The Act provides that a local unit of government not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2008, the School incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted.

Effect: Incurring expenditures in excess of the appropriated amounts could have a negative effect on fund balance.

Recommendation: In order to avoid incurring expenditures in excess of the appropriated amounts, the Act requires that the budget be amended when necessary. This would include reducing the budgeted amount if actual revenues are less than the estimated revenues originally budgeted, and increasing the budget to allow expenditures in excess of the original budget if excess amounts are available for transfer within the fund or if additional revenues become available. This can only be done if there are periodic comparisons between budget and actual figures throughout the year. We recommend that monthly comparisons be made between budgeted and year-to-date actual revenue and expenditures.

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Balanced Budget (Continued)

Response: The Administrative Assistant will make monthly comparisons between budgeted and year-to-date actual revenue and expenditures and will report to the Superintendent any discrepancies. The budget committee will meet quarterly to review the budget and year-to-date expenditures. Recommendations will come from the budget committee to the Board for budget amendments.

MATERIAL WEAKNESSES

2007-2 Preparation of the GAAP Basis Financial Statements

Condition: Along with assisting with the year end closing procedures to the School's accounting records, we also assisted the School by preparing the annual financial statements (including required disclosures) of the School prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the School's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the School. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the School acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

2008-2 Preparation of Year End Closing Procedures

Condition: This year, as in the past, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated.

Criteria: The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by School employees with an adequate knowledge of the School's activities during the fiscal year.

Effect: This situation could allow the misstatement of the financial statements.

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Preparation of Year End Closing Procedures (Continued)

Recommendation: With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the School provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting for the audit.

Response: There has been a reduction in the office staff to generate savings to the general fund. Therefore, the in-house accounting staff is not large enough, and will require additional training, to complete the preparation for year end closing. It is the goal of the District to have the accounting staff prepared to complete this task within the next two to three years. In the interim, the District will by necessity continue to subcontract this task to an independent firm.

2008-3

Deficit of Fund Balance

Condition: During our audit, we found that the School's General Fund incurred a large loss creating a deficit fund balance. This is a violation of the Michigan School Aid Act section 388.1702.

Criteria: The Act provides that a district receiving money under this act shall not adopt or operate under a deficit budget, and a district shall not incur an operating deficit in a fund during a school fiscal year.

Effect: Operating at a deficit fund balance could impact state aid payments.

Recommendation: The school should revise the current year budget and prepare a fund deficit elimination plan. The plan will be submitted to the Michigan Department of Education for approval.

Response: The school is aware of the situation and has made contact with the appropriate office at the Michigan Department of Education. The school is in the process of preparing a plan to eliminate the fund deficit by the fiscal year ending June 30, 2010.

September 8, 2008

To the Board of Education of the
Owendale-Gagetown Area Schools
Owendale, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Owendale-Gagetown Area Schools for the year ended June 30, 2008 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all-inclusive.

Prior Year Comments:

For the year ended June 30, 2007, a letter of comments and recommendations was dated October 11, 2007. The letter discussed situations which came to our attention during the course of the audit of the financial statements for the year ended June 30, 2007. These situations included excess expenditures over appropriations and adopting an investment policy. During the audit for the year ended June 30, 2008, it was noted that some changes were implemented regarding prior year recommendations.

Investment policy under GASB 40:

During the course of our audit, it was noted that the School Board has not amended their investment policy to address the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the School's funds. These resources are necessary for the delivery of the Association's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Association's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Association's financial statements by GASB Statement No. 40.

Owendale-Gagetown Area Schools
September 8, 2008

The above recommendations are being made in an effort to improve the School's system of record keeping. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel P.C.
Nietzke & Faupel, PC
Sebewaing, Michigan

September 8, 2008

To the Board of Education
Owendale-Gagetown Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Owendale-Gagetown Area Schools for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 31, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Owendale-Gagetown Area Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Owendale-Gagetown Area Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Owendale-Gagetown Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not note any estimates that we felt were particularly sensitive.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Owendale-Gagetown Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, PC
SEBEWAING, MICHIGAN

September 8, 2008